

**STATE OF UTAH INSURANCE DEPARTMENT  
REPORT OF EXAMINATION**

**OF**

**UNIVANTAGE INSURANCE COMPANY  
OF  
MURRAY, UTAH**

**AS OF**

**December 31, 2004**



## TABLE OF CONTENTS

<b>SALUTATION</b> .....	1
<b>SCOPE OF EXAMINATION</b> .....	1
Period Covered by Examination .....	1
Examination Procedure Employed.....	1
Status of Adverse Findings, Material Changes in the Financial Statements, and Other Significant Regulatory Information Disclosed in the Previous Examination .....	2
<b>HISTORY</b> .....	2
General .....	2
Capital Stock.....	2
Dividends to Policyholders .....	3
Management.....	3
Conflict of Interest Procedure .....	3
Corporate Records .....	4
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance	4
Surplus Debentures .....	4
<b>AFFILIATED COMPANIES</b> .....	4
Transactions with Affiliates .....	4
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	5
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	5
<b>STATUTORY DEPOSITS</b> .....	5
<b>INSURANCE PRODUCTS AND RELATED PRACTICES</b> .....	5
<b>REINSURANCE</b> .....	6
Ceded/Assumed .....	6
<b>ACCOUNTS AND RECORDS</b> .....	6
<b>FINANCIAL STATEMENTS</b> .....	6
Balance Sheet.....	7
Capital and Surplus.....	9
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	9
<b>CAPITAL AND SURPLUS</b> .....	9
<b>SUMMARY</b> .....	10
<b>CONCLUSION</b> .....	10

April 3, 2006

Honorable D. Kent Michie, Commissioner  
State of Utah Insurance Department  
State Office Building, Room 3110  
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination of the financial condition and business affairs of

**UNIVANTAGE INSURANCE COMPANY  
of  
Murray, Utah**

hereinafter referred to as (the Company), was conducted as of December 31, 2004.

**SCOPE OF EXAMINATION**

Period Covered by Examination

The Utah Insurance Department's (Department) last financial examination of the Company was conducted as of December 31, 2000. The current examination covered the period from January 1, 2001, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

The examination included a general review and analysis of the Company's operation, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2004. The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook.

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2004. Assets were verified and valued, and liabilities were determined or estimated.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statements, and Other Significant Regulatory Information Disclosed in the Previous Examination

Adverse findings noted in the prior report of examination were addressed by the Company or were identified as repeat exceptions in this report.

## HISTORY

### General

In December 1995, Workers Compensation Fund entered into an agreement with the Utah Insurance Commissioner, acting in his capacity as court-appointed liquidator of Bonneville Life Insurance Company, to purchase Bonneville Life Insurance Company's corporate charter and the right to its state licenses. The purchase agreement was executed on January 8, 1996.

As of December 31, 2004, the Company was authorized to transact life, annuity and disability lines of insurance. Subsequent to the formation of the Company, Workers Compensation Fund was restricted by statute from offering insurance lines other than workers' compensation, either directly or through subsidiaries. The Company has not transacted insurance business since its acquisition by Worker Compensation Fund.

On May 28, 2002, the Utah Insurance Department (Department) approved the Articles of Amendment to the Articles of Incorporation. Article XI was amended to change the annual requirement for an independent audit to "as requested or required by any regulatory authority."

### Capital Stock

As of December 31, 2004, the number of shares of common stock authorized by the Company was 1,000,000 at a par value of \$10.00 each. Ninety thousand shares were issued and outstanding. Workers Compensation Fund owned 100 percent of the outstanding shares of common stock.

### Dividends to Policyholders

During the period under examination the Board of Directors (the Board) did not declare and the Company did not pay stockholder dividends.

### Management

The bylaws of the Company indicated the number of directors would consist of not less than three or more than nine persons. On December 31, 2004, a three-member board of directors, consisting of the president and two former directors from Workers Compensation Fund governed the Company.

Directors serving as of December 31, 2004, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Lane Alma Summerhays Chairman Salt Lake City, Utah	President, Chief Executive Officer Workers Compensation Fund
Melvin Carl Green Salt Lake City, Utah	Owner, Chairman Creative Color
Mark Howard Heugly Salt Lake City, Utah	Senior Vice President Zions First National Bank

Officers elected by the Board and serving at the examination date were as follows:

<u>Principal Officer</u>	<u>Office</u>
Lane Alma Summerhays	President
Dennis Vaughn Lloyd	Vice President & Secretary
Ray David Pickup	Vice President & Treasurer

### Conflict of Interest Procedure

The Company had a conflict of interest policy with an established procedure for disclosure of any material interest or affiliation that might influence a board member or officer in the performance of their duties. The Company obtained a conflict of interest disclosure from its directors and officers on an annual basis.

### Corporate Records

In general, the shareholder and board of directors meeting minutes indicated the board adequately approved and supported the Company's transactions and events.

Pursuant to U.C.A. § 31A-2-204(8) the prior examination report, as of December 31, 2000, was distributed to the board of directors on May 28, 2002.

### Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

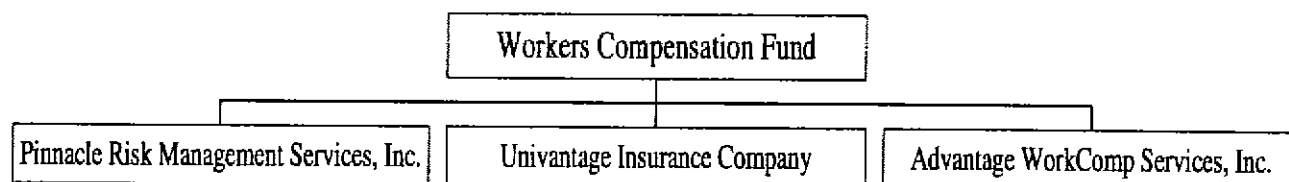
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Company during the examination period.

### Surplus Debentures

No surplus debentures were issued or retired during the examination period, and none were outstanding as of December 31, 2004.

## AFFILIATED COMPANIES

The Company chart below illustrates the holding company system:



### Transactions with Affiliates

Workers Compensation Fund (WCF), a nonprofit, quasi-public, property and casualty insurance company, is the ultimate controlling member of the insurance holding company system. Pinnacle Risk Management Services, Inc. (Pinnacle) is a third-party administrator of workers' compensation claims. Advantage WorkComp Services, Inc. is a workers' compensation products and services company. On January 1, 2005, WCF transferred its shares of Advantage WorkComp Services, Inc. to Pinnacle.

Effective June 15, 1998, the Company, WCF, Pinnacle, and Advantage WorkComp Services, Inc. entered into an agreement for cooperative and joint use of personnel, property, equipment, and services. WCF agreed to provide for its subsidiaries; personnel, property, equipment, and services to enable the subsidiaries to conduct business and other corporate functions. Pinnacle agreed to provide personnel, property, equipment, and services to the Company to enable the Company to conduct its insurance business and other corporate functions. The agreement requires the amount charged be fair, reasonable, equitable, and in accordance with the prevailing market rates.

#### FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is between \$20,000 and \$50,000. The Company was a named insured on Worker Compensation Fund's fidelity coverage in the form of an aggregate bond with a single loss limit of \$2,000,000 and a single loss deductible of \$50,000.

#### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no direct employees and is not a party to any pension, stock ownership, or insurance plans. The Company's parent was responsible for the business operations of the Company under a cooperative and joint use agreement.

#### STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-5-211(2)(a) and U.C.A. § 31A-4-105, the Company is required to maintain a statutory deposit equal to \$400,000. Wells Fargo Bank N.A. held U.S. Treasury Notes with a statement value of \$620,953 and a market value of \$636,138 under a tri-party agreement with the Department.

#### INSURANCE PRODUCTS AND RELATED PRACTICES

As of December 31, 2004, the Company was authorized to transact life, annuity, and disability insurance in the State of Utah. No insurance business was conducted during the examination period.

## REINSURANCE

### Ceded/Assumed

During the period covered by the examination, the Company neither ceded nor assumed reinsurance.

## ACCOUNTS AND RECORDS

WCF maintains the Company's accounting records. The general ledger is maintained on a full accrual basis of accounting. The annual statement is prepared by reallocating and adjusting account balances to conform to annual statement requirements.

An examination trial balance, as of December 31, 2004 was prepared from the Company trial balance sheet. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.

## FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2004 as determined by the examination, is reported in the following financial statements:

Balance Sheet as of December 31, 2004

Summary of Operations

For the Year Ended December 31, 2004

Capital and Surplus – January 1, 2001 through December 31, 2004

The accompanying notes to financial statements are an integral part of these statements.



Univantage Insurance Company  
Balance Sheet  
As of December 31, 2004

**ASSETS**

	<u>Amount</u>
Bonds	\$ 1,296,784
Cash, cash equivalents and short-term investments	266,375
Investment income due and accrued	24,060
Current federal and foreign income tax recoverable and interest thereon	2,146
Total assets	<u>1,589,365</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

General expenses due or accrued	672
Miscellaneous liabilities: Payable to parent, subsidiaries and affiliates	714
Total liabilities	<u>1,386</u>
Common capital stock	5,000,000
Gross paid in and contributed surplus	34,123
Unassigned funds (surplus)	653,856
Less treasury stock, at cost: shares common	<u>(4,100,000)</u>
Total capital and surplus	<u>1,587,979</u>
Total liabilities, capital and surplus	<u>\$ 1,589,365</u>

Univantage Insurance Company  
Summary of Operations  
For the Year Ended December 31, 2004

Premium and annuity considerations for life and accident and health contracts	\$ -
Considerations for supplementary contracts with life contingencies	-
Net investment income	68,666
Amortization of interest maintenance reserve (IMR)	-
Total	<u>68,666</u>
Death Benefits	-
Matured endowments	-
Annuity benefits	-
Disability benefits and benefits under accident and health contracts	-
Totals	<u>-</u>
General insurance expenses	16,249
Insurance taxes, licenses and fees excluding federal income taxes	2,628
Aggregate write-ins for deductions	-
Totals	<u>18,877</u>
Dividends to policyholders	-
Federal and foreign income taxes incurred	7,224
Net income (loss)	<u>\$ 42,565</u>

Univantage Insurance Company  
Capital and Surplus  
January 1, 2001 through December 31, 2004

	2001	2002	2003	2004
Capital and surplus, December 31, previous year	\$ 1,387,968	\$ 1,440,211	\$ 1,499,845	\$ 1,545,414
Net Income or (loss)	52,243	59,634	45,569	42,565
Change in net unrealized capital gains (losses)	-	-	-	-
Change in net deferred income tax	-	-	-	-
Change in nonadmitted assets	-	-	-	-
Surplus adjustment:	-	-	-	-
Dividends to stockholders	-	-	-	-
Net change in capital and surplus for the year	52,243	59,634	45,569	42,565
Capital and surplus, December 31, current year	\$ 1,440,211	\$ 1,499,845	\$ 1,545,414	\$ 1,587,979

NOTES TO FINANCIAL STATEMENTS

The Examination accepts the reported financial statements without exception.

CAPITAL AND SURPLUS

U.C.A. § 31A-5-211(2)(a) requires the Company to maintain a minimum capital in the amount of \$400,000. As defined by U.C.A. § 31A-17-601, the Company reported total adjusted capital of \$1,587,979 and an authorized control level risk-based capital (RBC) requirement of \$393 as of December 31, 2004.

## SUMMARY

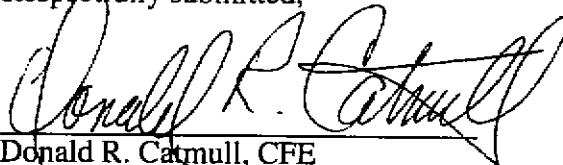
Items of significance contained in this report are summarized below:

1. Subsequent to the formation of the Company, Workers Compensation Fund (WCF) was restricted by statute from offering insurance lines other than workers' compensation, either directly or through subsidiaries. The Company has not transacted insurance business since its acquisition by WCF. (HISTORY-General)
2. Pursuant to U.C.A. § 31A-5-211(2)(a) the Company is required to maintain minimum capital in the amount of \$400,000. The Company reported and the examination accepts the calculation for total adjusted capital of \$1,587,979 and an authorized control level risk-based capital (RBC) requirement of \$393 as of December 31, 2004. (CAPITAL AND SURPLUS)

## CONCLUSION

Assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged. Colette Reddoor, CFE, Assistant Chief Examiner supervised the examination.

Respectfully submitted,



Donald R. Catmull, CFE  
Examiner-in-Charge, representing the  
Utah Insurance Department